

Inside Microsoft: Last Quarter's Progress.

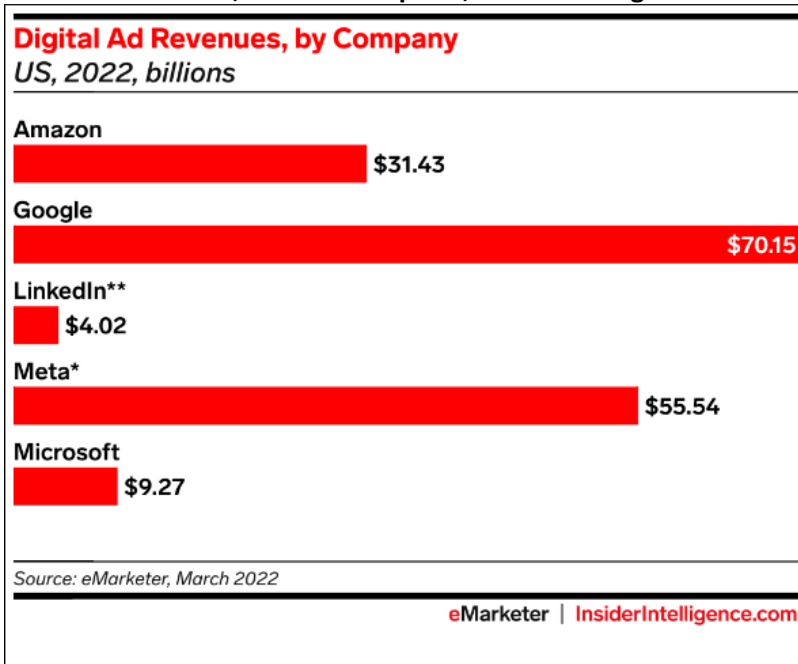
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Microsoft's growth tempered a bit this past quarter, notching just over 10% revenue growth compared to its usual 12-20% growth numbers. The weak PC market was the main contributor to this slowdown, and the general weakening of consumer confidence and spending also lowered ad revenue. Furthermore, the strong US dollar hurt revenues by 5% and are expected to continue at this rate for the whole year. (If Microsoft's euro sales grew 10% but the euro's value lost 11% against the dollar, it looks like those euro sales fell 1%.)

Despite a difficult economic backdrop to the quarter, most of Microsoft's businesses really performed quite well. Its cloud revenue, one of the more important business segments to future growth, increased 25%, with Azure, its cloud platform, up 35%. Teams, which started out as a sort of Zoom competitor, has exploded in popularity and has become an all-encompassing platform, with the majority of business customers also using Teams Rooms and Teams Phone in addition to the standard video capabilities. Its Azure artificial intelligence program became the first to be able to generate an image model from someone's voice when customer Mattel used it to help design a new Hot Wheels car. ("Make a scale model of a sports car". Azure makes an image of a toy sports car. "Make it a convertible". The image updates, and so on). Even in the weaker PC market, although PC sales were down Microsoft Windows continues to see growth, with 20% more users than pre-pandemic.

A rather surprising-to-some announcement happened when Netflix choose Microsoft for its new ad-supported streaming service, to begin in 2023, as Microsoft is not typically thought of as an advertising tech company like Google. However, Microsoft has been increasing focus on advertising revenue for several years now, growing its search engine, Bing's, market share and increasing ad revenue in LinkedIn every year. In 2021, Microsoft bought Xandr, a company that owns a platform used by buyers of digital advertising to help them manage their advertising needs and data. Xandr's claim to fame is its focus on privacy of its sellers' information, something that aligns with both Microsoft and Netflix's principles. Ad revenue may become a much larger contributor to Microsoft's bottom line in the years ahead.

Microsoft, a distant 4th place, has room to grow.



One of Microsoft's guiding principles is to invest in the categories driving the most growth of digital technology. It put its money where its mouth is over the last year, increasing employee headcount by 22% and shifting employees into the right business segments. This rapid hiring rate will not continue, but it's clear that hiring the best and brightest tech minds is a high priority. This strategy enables Microsoft to bring innovative products to customers to help them do more with less. We think Microsoft will keep gaining market share in valuable tech categories with this strategy.